

FINANCIAL STRUCTURE

The basic component of municipal financial structures is the fund. A fund is a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. A fund is usually established to account for revenues which are restricted for a specific purpose. At other times, a fund is established so that an activity may be accounted for separately and in a different manner from other activities of the government. Specific accounting regulations differ depending on the type of fund.

Following are definitions of the funds used by the City of Reading and information regarding the major revenue sources.

FUND DEFINITIONS

GENERAL FUND

The **General Fund** is the general operating fund of the City. It is maintained to account for all financial resources except those required to be accounted for in another fund. The general tax revenues of the City, as well as other resources received and not designated for a specific purpose, are accounted for in the General Fund.

ENTERPRISE FUNDS

Enterprise Funds (Water Fund, Sewer Fund, Recycling Fund) are maintained to account for activities that are financed and operated in a manner similar to private business, with the intent that the costs (expenses, including depreciation) or providing goods or services on a continuing basis be financed or recovered, primarily through user charges.

INTERNAL SERVICE FUNDS

Internal Service Funds (Self-Insurance) are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other Governments on a cost-reimbursement basis.

MAJOR REVENUE SOURCES

PROPERTY TAX

The 3rd Class City Code of the Commonwealth of Pennsylvania permits the City to levy a Property Tax of up to 25 mills for General Government purposes as well as a property tax for Debt Service purposes to the amount of the debt service. The total levy of property taxes is 10.4 mills. The Charter of the City of Reading allows up to a 5% increase in property taxes from the prior year level. The City of Reading Administration is proposing a .5 mill increase to the Property Tax changing the millage rate from 10.4 mills to 10.9 mills. Please see the chart below for the impact of the proposed Property Tax increase.

| <i>Property Value</i> | <i>Current City</i> | | <i>Proposed City</i> | | <i>Annual</i> | <i>Monthly</i> |
|-----------------------|---------------------|-----------------|----------------------|-----------------|-------------------|-------------------|
| | | <i>Tax Bill</i> | | <i>Tax Bill</i> | <i>Difference</i> | <i>Difference</i> |
| 25,000.00 | \$ | 260.00 | \$ | 272.50 | \$ 12.50 | \$ 1.04 |
| 35,000.00 | \$ | 364.00 | \$ | 381.50 | \$ 17.50 | \$ 1.46 |
| 45,000.00 | \$ | 468.00 | \$ | 490.50 | \$ 22.50 | \$ 1.88 |
| 55,000.00 | \$ | 572.00 | \$ | 599.50 | \$ 27.50 | \$ 2.29 |
| 65,000.00 | \$ | 676.00 | \$ | 708.50 | \$ 32.50 | \$ 2.71 |
| 75,000.00 | \$ | 780.00 | \$ | 817.50 | \$ 37.50 | \$ 3.13 |
| 85,000.00 | \$ | 884.00 | \$ | 926.50 | \$ 42.50 | \$ 3.54 |
| 95,000.00 | \$ | 988.00 | \$ | 1,035.50 | \$ 47.50 | \$ 3.96 |
| 105,000.00 | \$ | 1,092.00 | \$ | 1,144.50 | \$ 52.50 | \$ 4.38 |
| 115,000.00 | \$ | 1,196.00 | \$ | 1,253.50 | \$ 57.50 | \$ 4.79 |
| 125,000.00 | \$ | 1,300.00 | \$ | 1,362.50 | \$ 62.50 | \$ 5.21 |
| 135,000.00 | \$ | 1,404.00 | \$ | 1,471.50 | \$ 67.50 | \$ 5.63 |
| 145,000.00 | \$ | 1,508.00 | \$ | 1,580.50 | \$ 72.50 | \$ 6.04 |

| | | | | | | | | |
|------------|----|----------|----|----------|----|-------|----|------|
| 155,000.00 | \$ | 1,612.00 | \$ | 1,689.50 | \$ | 77.50 | \$ | 6.46 |
| | \$ | 1,716.00 | \$ | 1,798.50 | \$ | 82.50 | \$ | 6.88 |
| 165,000.00 | | | | | | | | |
| | \$ | 1,820.00 | \$ | 1,907.50 | \$ | 87.50 | \$ | 7.29 |
| 175,000.00 | | | | | | | | |

The Property Tax is a tax based on the property valuation furnished by the County of Berks. These tax bills are issued and administered by the Tax Administration division of the Finance Department. Collections are made through the Treasurer's Office and revenues are deposited in the General Fund, for General Purpose tax millage, and in the Debt Service Fund for Debt Service millage.

Taxes paid in full by April 30 receive a 2% discount. Taxes paid by June 30 pay the flat amount. Taxes paid after July 1 are subject to a 10% penalty. Taxes unpaid as of January 15 of the subsequent year are turned over to Portnoff Law Associates for Collection.

ACT 511 TAXES

Act 511 Taxes consist of:

- Earned Income Tax (EIT)
- Business Privilege Tax (BPT)
- Occupational Privilege Tax (OPT)
- Per Capital Tax (PCT)
- Real Estate Transfer Tax
- Admissions/Amusement Tax

The EIT is a 1.7% tax on all wages, salaries, fees, and self-employment net income received by City residents. The tax is shared with the Reading School District (RSD) (.5%) and the City of Reading at 1.2%. The City of Reading Administration is proposing increasing EIT by .2% from 1.7% to 1.9%. Employers withhold this tax from employees' wages and pay to the City. Annually, this tax is apportioned to the employees' resident municipality and/or school district. Individual returns filed by City residents are used as a basis for claiming monies paid to other collectors.

The BPT is a tax for the privilege of conducting business within the City of Reading and is shared with the RSD. The rates for each \$1,000 of gross volume are \$1.50 for retail, \$1.00 for wholesale, and \$2.25 for service, commissions, and rentals.

The EMST is a \$52 tax imposed on each person engaged in an occupation within the City of Reading. It is shared with the RSD. The City share of the tax is \$47 and the RSD share is \$5. The tax is withheld by the employer and paid to the General Fund.

The PCT is a \$15 tax on all residents 18 years or older. The City share of the tax is \$5 and the RSD share is \$10. The tax is billed by the Tax Administration Division of the Finance Department. The Tax Administration Division pursues delinquent collections through wage attachments and civil suits.

The Real Estate Transfer Tax is 5.0% of the value of real property within the City, which is transferred or conveyed. The tax is collected by the Berks County Recorder of deeds at the time a new deed is recorded. The real estate transfer tax has been increased for the past several years, putting the City of Reading share at a grand total of 3.5% in real estate transfer. The City of Reading Administration is proposing a 1.5% increase to the Real Estate Transfer Tax, changing the total percentage from 5.0% to 6.5% (1% state, .5% school district, 5.0% City share).

INTERGOVERNMENTAL REVENUES

A major source of revenue within the General Fund is the Pension Contribution from the Commonwealth of PA. The City must budget the full amount of the Minimum Municipal Obligation (MMO) and the state aid offsets a portion of the City contribution to the Police, Fire, and Officer's & Employees (O & E) pension funds. The amount of the state aid is dependent on the total amount of money state-wide and the number of active employees in the various pension funds.

Other Intergovernmental Revenue from the Commonwealth for the General Fund are the Public Utility Tax refund and the Malt & Liquor Tax refund. Utilities located in Pennsylvania are required to pay a gross receipts tax. This tax is distributed to the municipalities in lieu of real estate taxes from utilities within the City. The Malt & Liquor Tax refund is based on the number of State Liquor Licenses held within the City.

A revenue to the Liquid Fuels Fund from the Commonwealth of PA is the Liquid Fuels Tax Revenue. This revenue is used to pay various expenses in the Liquid Fuels Fund, including, patching, snow removal, tool repair, street reconstruction, and capital purchases in the Streets program.

The Community Development Department receives a major intergovernmental revenue from the Federal Government, the Community Development Block Grant.

WATER AUTHORITY

The Reading Area Water Authority (RAWA), as part of the lease rental agreement with the City of Reading, reimburses the City for the expenses incurred in providing water services. The lease rental agreement reimburses the water fund for the expenses of all the employees, which are City employees. In addition, the General Fund receives an indirect cost payment and a financing fee. The financing fee is related to the depreciated value of assets of the Water System, and the outstanding debt, which the City is guaranteeing. RAWA receives all of the revenues, from providing water services to both inside and outside water users.

USER FEES

The Sewer Fund generates revenues from customers within the City, from outside municipalities, and from the Industrial Waste Pretreatment program. The revenues from customers within the City are based on 120 % of the city water bill. Revenues from outside of the City are based on the inter-municipal agreements of 1986. Costs are calculated along with total Equivalent Dwelling Units (EDU's) for the entire system including Reading and all outside municipalities. A rate per EDU is calculated which, along with the total flow into the Wastewater Treatment Plant determines the total revenues from the outside municipalities. According to the agreements, part of the revenues go into the Capital Reserve Sewer fund. The Sewage Fund can use the revenues in the Capital Reserve Sewer Fund to offset some debt service expenses of the Sewer Fund. The Industrial Waste Pretreatment program recovers all of the costs associated with the High Strength waste of industries. The Sewer Enterprise Fund reimburses the General Fund for indirect costs as well as a return on the City's investment.